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Corporate Resources Department



THE CITY OF CALGARY

**CALGARY ECONOMIC
OUTLOOK
1992 THROUGH 1996**

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INTERNATIONAL OUTLOOK

International Trade

The practice of maintaining government support or protection towards specific industries is increasingly being called into question as nations move towards interlocking trade arrangements. The Uruguay round of the General Agreement on Tariffs and Trade (GATT) continues with discussions aimed at reducing government subsidies and trade barriers with little concrete progress made to date.

Yet, pressure continues to mount for trade reforms and the European Economic Community's (EEC) current agricultural subsidies are a case in point. The lengthy grain subsidy war involving both the United States and the EEC has brought about dramatic declines in grain prices and affected both agricultural policies and the economic well-being of grain farmers throughout the world.

Australia and New Zealand dramatically cut agricultural subsidies and have moved to unsubsidized agricultural trade practices with mixed effects on their agricultural sectors. Other nations, such as Canada, have reacted to the lengthy subsidy war by increasing their financial commitments to the grain support system. The costs of this continued support have increased and a cessation of the trade war is not yet in sight.

The Canadian government will be hard pressed to support agriculture as long as the trade war persists. Since continued large agricultural support implies increased difficulties on the part of the federal government to reduce future deficits there will also be increased pressure for the future reshaping of numerous agricultural support practices.

While international trade discussions through GATT are occurring, the ongoing processes of global trade restructuring continues with three powerful regional economic spheres emerging: a European Community, a North American Alliance and a Pacific development bloc.

The economic integration of much of Europe and the merging of the European Economic Community (EEC) with countries of the European Free Trade Association (the EFTA currently includes Iceland, Norway, Sweden, Finland, Austria, Switzerland and Liechtenstein), is now a reality. The newly expanded free trade area of the combined countries will include a single market stretching from the Arctic to the Mediterranean and from Iceland to Russia.

While talks have begun on a North American free trade alliance, interlocking trade arrangements amongst Latin and South American nations are also underway. Many South American nations are turning their economies towards freer market operations as they privatize state-owned operations and reduce tariff barriers.

Mexico, Columbia and Venezuela are expected to have formed a common market by 1994. Argentina, Brazil, Paraguay and Uruguay are also expected to have a common market in operation by 1995. President Bush's Enterprise for the Americas Initiative calls for a future free trade zone from Alaska to the southern tip of South America.

The Pacific Rim continues to emerge as a multi-country manufacturing complex with Japan as a pivotal strength and Korea, Taiwan, Singapore and Hong Kong as emerging elements of the composite. Prospects for this bloc include alignment practices with numerous nations and accessing the other large trading spheres.

The rapid movements towards democratization of eastern Europe and Russia have the potential to dramatically alter and re-shape the three large trading spheres by opening up new markets for investments as well as the exchange of goods and services.

Future economic growth is contingent upon increasing involvements within these large emerging trading spheres as well as with numerous other areas such as Russia and China. The opportunities for Canadian investments as well as trade in expertise and commodities are manifest. Increased competitiveness through market processes, increased efficiencies and new product and market developments are paramount considerations for Canada's future growth.

Energy Prices

Energy prices averaged \$20.00 (US) per barrel for West Texas Intermediate (WTI) crude oil in the 7 months prior to Iraq's invasion of Kuwait in 1990. With the outbreak of hostilities in the middle east, WTI oil prices escalated to over \$40.00 (US/bbl) with 1990 prices averaging \$24.50 per barrel. After the war in the Persian Gulf some semblance of price stability appears to have returned with 1991 WTI oil prices averaging \$21.60 (US/bbl.) to October 1991.

Elements of oil price volatility remain due to the prospects of increased middle east supplies, potential disruptions from continuing instability in the middle east and the uncertainties of future Soviet production levels. With the potential to move in either direction, nominal increases in forecast oil prices are expected to be positive, but modest, over the forecast period.

Average energy prices are outlined in Table 1. Indicated increases are slightly above consumer price indexes in both Canada and the United States and, as a consequence, energy prices will contribute modestly to inflation rates in both countries over the forecast period.

Table 1. Average Energy Prices: 1991 - 1996

	1991	1992	1993	1994	1995	1996
WTI (US/bbl)	22.00	23.20	24.80	26.30	27.60	28.70

A large secure future supply of reasonably priced natural gas coupled with environmental considerations, has raised the prospects for this source of energy to be more readily utilized in an electrical generation capacity and as a transportation fuel, in addition to its traditional role as a heating fuel.

The U.S. government has also encouraged supply increases with the development of methane coal gas as a natural gas alternative through the extensive use of tax credits. Given the shifts in demands, natural gas prices are expected to increase approximately 1% faster than oil prices over the forecast period allowing some small room for increased sales, profits and exploration on the part of the natural gas companies.

The U.S. Economy

As the U.S. economy drifted into a mild recession in late 1990, the Federal Reserve cut interest rates in an effort to stimulate diminished domestic activity. However, the American economy continues to perform weakly. While the declines in production may have ended, the processes affecting recovery may be lengthy. The downside risks are development of a loss of business or consumer confidence that would prolong the recovery.

Both the private sector and public sector alike remain vulnerable to financial shock. Numerous U.S. banks, savings and loan associations and real estate projects are in financial difficulty. Additionally, the U.S. is saddled with continuing merchandise trade deficits, federal budgetary deficits as well as significantly high levels of government debt. The American government is expected to strengthen its efforts on reversing trade imbalances and balancing the federal budget over the next several years.

The US economy is expected to recover slowly, with the economy operating at less than full capacity and not achieving full employment levels until 1996. Inflation will average 3.5% over the five year forecast period.

Democratization in eastern Europe and Russia is expected to result in reduced American defense expenditures over the next several years. Some declines in defense spending are forecast through reduced capital expenditure's and reductions in troop strength.

The US is expected to move to a tighter fiscal policy in conjunction with an easier monetary policy with stabilization of shorter term interest rates over the forecast period. By 1996, the US is expected to have curtailed its merchandise trade imbalance and reduced the annual deficit considerably. Table 2 outlines some of the more significant variables for the US over the period 1991 through 1996.

Table 2. The U.S. Economy: 1991 - 1996

	1991	1992	1993	1994	1995	1996
Real GNP (%)	-3	2.7	3.0	2.9	2.6	2.9
Consumer Prices (%)	3.8	3.6	3.6	3.5	3.5	3.4
Prime Commercial Rate	8.6	8.2	8.3	8.6	9.0	9.0
90 Day Treasury Bills	5.5	5.1	5.2	5.3	5.4	5.5
Unemployment (%)	6.8	6.6	6.1	5.7	5.6	5.5

Source: Lawrence H. Meyer & Associates, 1991.

NATIONAL

The Canadian economy lost substantial momentum early in 1990, with this loss largely attributable to a high interest rate policy. Declining national and international demands throughout 1990 contributed to the declines in both consumption and investments. The negative repercussions have been both regional and industry specific with a substantial impact of the recession hitting the manufacturing sectors concentrated in Ontario.

The national recession was expected to continue through the spring of 1991 with the economy improving significantly in the last half of the year. Renewal was to be largely contingent upon a rebounding Ontario economy, fed by renewed US demands for automobiles, trucks and other manufacturing products.

Canadian trade would be enhanced with no federal taxes levied on exported products and a lower Canadian dollar. However, in January 1991, the reduction in export prices coincided with a sharp reduction in American demands, particularly those for manufactured goods, and the recovery did not materialize as forecast.

Unfortunately, the recession in Canada has been more severe and has lasted longer than initially forecast. Throughout 1991, Gross Domestic Product has remained negative, retail sales have declined by some 7.0%, corporate profits are down and manufacturing shipments, new orders and capacity utilization have all declined.

The Bank of Canada has gradually moved towards an easier monetary policy over the past 12 months with prime commercial rates declining over 400 basis points since the fall of 1990. Given the poor national economic performance, continuing inflationary declines and the spread between Canadian and American interest rates, there is still additional room for further Canadian interest rate reductions.

After the inflationary "shocks" of the GST and other federal and provincial taxes have been absorbed, the national inflation rate will decline to approximately 5.5% for 1991 and much less in succeeding years. Interest rates are expected to decline further over the forecast period, commensurate with reduced inflationary expectations and lower levels of inflation.

Exchange rate increases over the past year offset some of the expected gains from trade and there is growing sentiment for a lower Canadian dollar. While a lower valued Canadian dollar would currently enhance the prospects for increased Canadian exports, the resulting domestic inflation would not be compatible with the Bank of Canada's inflationary targets over the next few years. As a consequence, only modest declines in the exchange rate are expected over the forecast period.

While real gross national product appears to have turned positive in some sectors, the strong economic rebound in both the U.S. and Canada has not materialized. The recession in Canada has shown itself to be more severe than anticipated and economic recovery will be more protracted than previously expected. Currently, national unemployment is 10.5%, and real economic growth in Canada will decline by some 1.6% in 1991.

As demands reappear and capacity utilization rates increase, labour requirements will increase and the Canadian economy will improve. Canadian economic performance is expected to be slow in the last half of 1991 with stronger growth commencing in 1992.

Table 3 outlines the expected national performance over the next five years. Reduced inflationary expectations and unemployed resources will serve to reduce inflation levels close to the targets established by the Bank of Canada. Longer term mortgages with rates less than 10% should prevail throughout most of the forecast period.

Table 3. The Canadian Economy: 1991 - 1996

	1991	1992	1993	1994	1995	1996
	(annual % change)					
Real Growth in GDP (%)	-1.6	3.5	3.8	3.7	3.1	2.5
Inflation, CPI (%)	5.8	3.5	3.0	3.0	3.0	3.0
Unemployment (%)	10.3	10.1	9.8	9.4	9.1	9.2
Bank Rate (%)	9.3	8.4	7.5	6.8	6.5	6.4
90 Day Commercial Prime (%)	9.2	8.2	7.4	6.6	6.3	6.7
Corporate Long Term						
Bond Yield	11.1	10.1	9.3	8.4	7.6	7.9
Exchange Rate (US\$/C\$)	87.1	86.0	85.0	85.2	85.2	85.2

Source: Informetrica, 1991.

ALBERTA

Most provincial economies will experience negative growth in 1991. However, Alberta's economic performance, while weakened, has remained positive. While US demands for manufactured goods has fallen in general, the demands for much of Alberta's resource exports have continued strong. Resource investments and export sales have contributed strongly to provincial economic growth in 1991, while residential construction, manufacturing and trade sectors have experienced decreased activity.

The introduction of the 7% GST, higher federal and provincial taxes and other levies have eroded growth in disposable incomes and weakened consumer confidence. While retail sales in Alberta for supermarkets, and children's clothing have modestly increased; retail sales in other activities have fallen, particularly motor vehicles, recreational vehicles, shoes sales, men's clothing, household furniture and appliances and other durable good sales.

Provincial unemployment in September 1991 had risen to 8.9% from a 7.4% level a year earlier. Unemployment has been particularly pronounced in the residential construction sector and compounded by an influx of construction workers seeking work from other provinces.

The appreciation of the Canadian dollar has had a negative influence on exports and has particularly influenced natural gas profits in an industry faced with declining export prices. Declines in corporate profitability are also playing a dominant role in the decreased exploration and drilling budgets of numerous energy companies. On balance, Alberta's economic growth has remained positive in 1991, albeit weaker than previously forecast.

Alberta is expected to experience stronger growth in 1992 as consumer confidence reemerges and employment demands increase. However, real provincial growth rates are not expected to exceed those of the national average in 1992 or over the remainder of the forecast period. The principal reasons for continuing, but modest, provincial growth over the forecast period is predicated upon several considerations.

Lower interest rates are expected to have a strengthening effect on Alberta investments, housing construction and, with a return of consumer confidence, increased consumer demands.

Continuing demands for Alberta's resources are expected over the forecast period. Higher crude oil production will continue to decline, offsetting much of the gains from nonconventional oil and natural gas production. Given the mix of agriculture practices in the province, modest increases in production values are anticipated, despite a continuation of the U.S. - E.E.C. grain subsidy war. Forestry output is expected to experience average annual production increases of 4% over the forecast period.

Modest increases in federal government procurement policies favouring more "made in Alberta" purchases and a continued emphasis on the promotion of Pacific Rim trade is expected over the next five years. As a consequence, above average demands on manufacturing, transportation, trade and services sectors are expected over the next several years.

In terms of labour, materials and other supply requirements, the construction phase of Alberta's major investments has created a substantial economic impetus to both the provincial and local economies. The completion of these projects adds to the permanent labour force and increases in provincial domestic product.

A significant decline in major resource investments is expected in the post-1993 period. While a number of large resources-related projects are currently underway, construction impetus is lost as these projects come on-stream and other planned projects are deferred. Table 4 summarizes the construction requirements for Alberta's major resource projects (in man years) over the period 1991 through 1996.

Table 4. Major Alberta Investments: Construction Requirements
(Man-years of labour)

	1991	1992	1993	1994	1995	1996
Major Oil	2260	533	848	4930	7970	5237
Natural Gas	480	1210	300			
Pipelines	1600	1230	1200	1080	380	620
Forestry	1120	1920	1470	1180	552	
Petrochemical	1120	520	530	620	620	160
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Sub Total	6580	5413	4348	7810	9522	6017
Without OSLO			-577	-4405	-7615	-4897
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Total Employment	6580	5413	3771	3405	1907	1120

Source: "Workforce Requirements of Major Alberta Resource Projects", Alberta Career Development and Employment. 1990. Updated 1991.

With the largest of the planned oil projects, OSLO, deferred until later in the decade, most investment and construction momentum will be lost in this sector after the Husky oil upgrader is completed in 1992. Deferment of OSLO also removes a significant edge from the projected growth in permanent jobs created by major investments in 1995 and 1996.

The majority of natural gas projects (such as Caroline) will be completed and on stream in early 1993. Major provincial pipeline expansions and forestry projects are virtually completed in 1994.

While the current ongoing and planned projects indicate declines in future oil and gas projects, the prognosis of reasonably stable energy prices over the medium term may lead to modest expansions in the oil and gas industry and new major investment projects emerging over the 1993 to 1996 forecast period.

In the short run, employment uncertainty and a loss of consumer confidence (principally from an erosion of disposable incomes due mainly to the GST and other tax increases as well as significant increases in regulated prices) have resulted in diminished consumer spending in the province. A reduced level of consumption is expected throughout 1991 and into the first part of 1992, offsetting substantially the positive effects of reduced interest rates.

In the medium term, real provincial economic growth will vary with expected future growth below the national level. Alberta's unemployment will be in the 8% range, higher than traditional levels. However, Alberta's manufacturing sectors, particularly food, metal fabrication, chemical, machinery and equipment, electrical products, and the pulp and paper industries are expected to show some strengths and diversification over the forecast period.

Table 5. Alberta Outlook: 1991 to 1996

	1991	1992	1993	1994	1995	1996
Employment ('000)	1241	1258	1273	1291	1310	1319
Unemployment (%)	8.3	8.2	8.6	8.7	8.7	8.5
Sectoral Growth	(constant dollars, annual % change)					
Real GDP	.3	2.9	2.9	1.8	1.0	1.6
Agricultural	-4.0	5.5	4.1	3.3	4.5	2.0
Petroleum and Natural Gas	1.7	.3	1.3	-1.8	-3.4	1.0
Manufacturing	-1.3	8.7	8.6	6.5	4.8	2.3
Transportation	-2.0	3.1	3.5	3.1	2.6	1.7
Communication & Utilities	1.1	3.8	3.6	2.1	1.8	2.0
Trade	-2.5	2.1	3.1	2.3	2.0	2.0

Source: Informetrica, 1991.

CALGARY

While numerous other Canadian regions felt the effects of the recession in 1990, the City of Calgary continued to experience both population growth, with a natural increase (births minus deaths) of approximately 1.4% and a net migration rate of 1%, and positive economic growth (in terms of construction activity, retail sales and employment growth).

While local employment opportunities have been eroded and unemployment has increased, the City of Calgary is a high energy, well paying and attractive community that will continue to retain much of its younger generation and attract new individuals to the City over the forecast period.

Demographic growth over the forecast period will continue with the City of Calgary experiencing annual growth rates between 1.5% and 2.5% even with constrained net migration. This implies pressure for the continued expansion in housing, shopping facilities and increases in the workplace as well as civic infrastructure to accommodate and facilitate this growth.

While the City was able to withstand the first 12 months of the national recession, economic growth has been severely impacted in 1991 by: significant changes in disposable incomes, the oversupply of certain structures and employment instabilities.

The cumulative effects of GST, increased taxes and other levies in 1991 have resulted in little or no growth in disposable incomes.

Overbuilding and vacancies have also affected the need for additional office and shopping facilities over the short to medium term.

Calgary's growth in employment opportunities, through new manufacturing plant developments and head office relocations, has been overshadowed by both recession-induced losses and other negative employment components.

Recession-induced unemployment has arisen from airlines, other transportation sectors, wholesaling and retail establishments, and other firms severely impacted by the national recession.

Other negative employment components include: poor investments (Magnesium plant in High River), technological obsolescence (Canada Packers) and numerous corporate mergers and corporate downsizing, with downsizing predicated primarily upon rationalization in both energy and the government financed sectors (such as hospitals, where the latter had budget expectations above actual grants).

The net result of these impacts has been declining employment opportunities and a loss of consumer confidence that will not be overcome until layoffs and staff reductions moderate, unemployment rates decline and disposable incomes overtake tax increases.

The rate of job creation in Calgary has declined and job opportunities have not kept pace with the additions to the Calgary labour force. Local unemployment rates have now reached 9.0% and higher unemployment is expected in Calgary for the remaining months of 1991 and into 1992.

Calgary has also experienced a considerable increase in the number of persons moving to the City of Calgary over the past 12 months that do not have jobs. The in-migration of unemployed individuals has been a significant factor in the increase in Calgary's unemployment rate. Increasing employment opportunities in other areas and the higher unemployment rates in the City may reduce future net migration levels to Calgary.

Since Calgarians have both high disposable incomes, a high propensity to consume and high debt/income ratios, erosion of disposable incomes and a loss of consumer confidence will have a greater negative expenditure impact in Calgary than in many other communities. With a large employment base built on consumption, reductions in expenditure patterns will impact strongly on both employment patterns and construction activity in Calgary.

CONSTRUCTION ACTIVITY: 1991 to 1996

The current economic weakness will have pronounced effects upon construction activity throughout the City over the next 12 to 18 months. Despite prevailing low interest rates, other factors tend to mitigate against construction starts in numerous sectors. Current construction excesses, relative to the declines in consumer expenditures and confidence, are becoming more readily apparent. In many sectors increasing vacancies are expected to lead to diminished construction activity and rental reductions.

The following sections outline current and expected developments in several Calgary sectors.

Office Construction

Major office construction projects are now completed in Calgary and short run prospects for further developments are not apparent. Overall office vacancy rates have increased slightly to the 15% level and class "A" building vacancies are currently over 11%.

Mergers, corporate rationalizations, and other forms of office reductions have resulted in substantial increases in the amount of subleaseable office space available. Both high vacancy rates and increases in the availability of subleaseable space are expected to discourage new office developments in the short run.

With annual absorptions around 500,000 square feet per year, the office market will pick up over the forecast period as class "A" vacancies decline, rent increases occur and potential returns increase. Given the large lead time required to bring larger office projects on-stream and the forward economic circumstances at the time of delivery, a start on one or two major office towers is a possibility over the forecast period.

Accommodation Sector

While several large hotel projects have been brought forward, there is little current incentive for developments and several factors indicate continued hesitancy or delays throughout 1992.

Calgary room occupancy and room sales have declined from 1990 levels. In addition to constrained travel budgets on the part of businesses and consumers, the accommodation sector has had to contend with diminished national and American traffic as well as Alberta's provincial hotel room tax and the federal GST.

The potential growth in tourism appears brighter in the post 1992 period. With a more positive economy, increased growth in City visitors and an increased return on investment, the prospects for the construction of one or two major hotels to commence later in the forecast period appear reasonable.

Developments in this sector will also be significantly affected by the potential development of a new convention and trade centre, its timing and location. Expanded facilities would attract more and larger tourist groups to Calgary. While the prospects for such a centre are contingent upon the full evaluation of existing facilities, leases, sources of funding and numerous other factors, the future development of a new centre would encourage the construction of further accommodation facilities throughout Calgary.

Retail

Decreased retail activity is apparent with only groceries, children's clothing and general merchandise stores showing a modest, but positive, performance in 1991. All other retail areas have experienced sales declines with some retail sales areas off over 20%. (recreational vehicles, motor vehicles, shoes, and mens clothing). Most retailers have been forced to absorb most or much of the 7% GST implemented by the federal government. Increases in both business failures and retail vacancy rates are expected.

Calgary currently has over 5500 stores located in shopping malls. Table 6 indicates the current status of basic types of shopping malls in the City (Regional malls have 2 large anchors, Community malls have 1 anchor and Neighbourhood centres have a large food store, etc, and strip malls have 3 or more stores). Currently, over 24 square feet of mall space per person exists in the City with over 13 square feet per person consisting of larger malls with at least one major anchor.

Table 6. Current Status of Calgary Malls*

	GLA (millions of sq ft)	vacancy %	sq ft /capita
Regional	6.6	4.5	9.4
Community	3.0	11.0	4.3
Neighbourhood	4.1	10.0	5.9
Strip Malls	3.4	15.0	4.9
Total	<u>17.1</u>	<u>9.0</u>	<u>24.5</u>

* 1991 Gross Leasable Area (GLA)

As a consequence of diminished sales activity and competition from the warehouse sector some rationalization is expected in the retail sector with fewer retail chain stores, increased retail space vacancies and reduced construction activity in the short run.

While mall vacancies are expected to increase over the short run, continuing shifts outward of the population, required rehabilitations of older centres, the "opportunity costs" to the developer of holding property and the resurgence of consumer spending will all create development pressures for renewed construction activity in this area over the forecast period.

Given short run declines in consumer expenditures, some fall-off in strip mall construction activity is anticipated. However, some strip mall developments, particularly those associated with new housing areas, will continue.

Warehouse Activity

Warehouse construction activity is one of few remaining active construction areas in Calgary. Buildings of this nature range from the very small to storage space exceeding 250,000 square feet.

Warehouse properties are frequently multi-purpose structures with a mix of storage, manufacturing, office, commercial, or retail operations. An increasing number of warehouse building permits are issued for "stand alone" retail operations, where higher rents and other forms of operational control are avoided by locating apart from existing malls. Expansions of existing retail stores to new areas plus new entrants into this type of operation are expected over the next few years.

Continued construction of the storage, manufacturing, commercial type warehouse is also expected to continue over the forecast period as Calgary increases its stature as a distributional - manufacturing centre. The forecast construction activity associated with commercial/ warehouse developments is outlined in Table 7.

Table 7. Commercial/Warehouse Permit Activity: 1991 - 1996

	1991	1992	1993	1994	1995	1996
	('000 sq ft)					
Square Footage	1,300	1,200	1,500	1,500	1,500	1,500

Apartments

Despite lower interest rates, current apartment vacancies at the 4.5% level are discouraging rent increases and new construction. The construction of new units appears strongly weighted around accommodations for seniors.

Vacancy rates will decline throughout 1992, but renewed interest in apartment construction is not expected until 1993. With reduced construction activity, population increases will cause vacancy rates to decline and rents to increase sufficiently to create a better investment return and induce further apartment developments in the latter part of the forecast period.

Table 8. Apartment Building Permits: 1991 - 1996

	1991	1992	1993	1994	1995	1996
Units	250	300	450	500	600	600

Townhouses

While townhouse vacancy levels are currently low (2.3% according to the Alberta Municipal Affairs survey for September 1991), demands for this type of accommodation diminished in 1991. With the exceptions of specialized market niches (upscale, retirement units and starters) townhouse development is not expected to strengthen until mid 1992.

Table 9. Townhouse Permit Activity: 1991 - 1996

	1991	1992	1993	1994	1995	1996
Units	400	500	600	600	700	700

Single Family Housing

Decreased activity is evident in the single family housing market and building permits in 1991 will be approximately 600 units less than forecast in 1990 (3,800 units versus 4,400).

Despite the sharp declines in mortgage rates and a softening of home prices (in both the Calgary MLS and new housing markets) throughout 1991, the loss of consumer confidence is playing a significant role in both new home developments and sales on the existing home market. This softening in the marketplace is expected to continue for the next 12 months (or until economic recovery is clearly evident to the consumer).

Calgary MLS market sales have declined for the 5th straight month. Resale markets are soft in the mid and upper priced home markets. New housing price inflation is approximately 1.7% for 1991 as builders face declining sales.

The single family marketplace is currently experiencing a "cooling off" period with a modest decline in housing prices and building activity over the short run. A return to previously forecast levels of housing activity is expected in the latter part of the forecast period.

Table 10. Single Family Building Permits: 1992 - 1996

	1991	1992	1993	1994	1995	1996
Single family units	3800	4000	4600	4800	5000	5000

THE CALGARY FORECAST

The forecast for Calgary (shown in Table 11) is predicated upon a continuation of economic uncertainty with increased unemployment over the short run until consumer confidence returns. This period also includes an adjustment for absorption of increased taxes and some employment stabilization in the local labour force.

Table 11. City of Calgary: Outlook to 1996

	1991	1992	1993	1994	1995	1996
Unemployment Rate (%)	8.5	9.0	8.5	8.2	7.5	7.5
Calgary CPI (%)	6.3	4.0	3.5	3.5	3.0	3.0
Average MLS Housing Index *	114	120	127	133	138	156
Net Migration**	6300	6500	8500	9000	9500	10500
Population** ('000)	708.7	724.3	741.7	759.5	777.6	796.5

- * based on June 1981 average MLS price of \$110,000
- * estimates as of June 1st.

While the average annual increase in Calgary's Consumer Price Index is currently 6.3%, the majority of inflationary pressures have diminished. In February of 1992, the City will experience a significant drop in the consumer price index (after a 12 month period for the absorption of the GST) into the 4.5% range. In subsequent months the absorptions of other 1991 federal, provincial and municipal increases will be reflected in still lower CPI levels.

Inflation levels of 4% (or less) may well be evidenced in the Calgary economy in 1992 and over the medium term. Our expectation is that the Bank of Canada's target levels for national inflation rates less than 3% in 1993 and beyond will be achieved.

Strong economic "drivers" for increased employment activity in 1992 are not evident. Such "drivers" would include: higher energy prices, stronger prices in other resources sectors, increased evidence of federal procurement policies impacting very positively on Calgary, substantial increases in tourism, large new businesses such as life insurance or investment houses relocating to Calgary.

SUMMARY

Eighteen months of a national recession coupled with higher taxes have eroded the confidence and economic well being of numerous areas that, earlier, were reasonably insulated from the full impacts of its effects. Calgary is one such area. Diminished disposable incomes and job uncertainties have created a lack of consumer confidence that is currently impacting throughout the City.

The City of Calgary continued to perform well in the first 12 months of the recession but the local economy began to level off in the spring of 1991. Corporate downsizing, employment rationalization, technological changes, migration of unemployed workers to Calgary seeking a more positive employment area, and decreased consumer spending have all contributed to declines in economic activity.

Current "oversupply" appears to characterize many construction sectors in the City and until vacancies decline and economic returns increase along with consumer and business confidence, some fall off in construction activity is anticipated over the short run.

Unemployment is expected to rise in the winter months of 1991/92. Economic activity is expected to remain relatively flat in the first part of 1992 as adjustments continue to occur in the economy. These include:

- No further erosion of disposable incomes and modest increases in average disposable incomes throughout 1992. However, a significant (14% +) increase in unemployment insurance rates in 1992 is a strong possibility.
- Interest rates declining relative to national CPI levels (some 1% or more) by the spring of 1992.
- The local economy stabilizing in terms of "rationalizations" and other employment losses.
- Reduced inflationary expectations, lower wage increases and a much lower level of price adjustments in all sectors.
- The Calgary Consumer Price Index will fall from a 6% level in 1991 to a 4% level in early 1992 and will continue decline thereafter. Consumer price adjustments in February and March (after a 12 month period), will absorb the impacts of the GST (January) and the federal budget impacts (February). By April 1992, the Calgary consumer price index will begin to reflect monthly price changes in the post GST time frame and the deflation that the local economy experienced in much of 1991.

Without continued erosion of the consumers disposable income through significant tax increases or other administered prices and depending upon the timing and strength of the U.S. and Canadian recoveries, the economic malaise in Calgary is expected to continue to mid 1992 before the process begins to significantly reverse itself.

While a national recovery in early 1992 is a strong possibility, the initial stages of this recovery may be quite modest in terms of economic growth. Recovery in Canada will be stimulated by renewed spending by American consumers, creating increased demands for Canadian products. A stronger period of national growth is expected in mid 1992 and beyond.

The local economy is currently soft and its citizens extremely susceptible to, and wary of, further reductions in disposable incomes.

A potential downside to employment growth is the possibility of future rationalization occurring in the financial, insurance and business services sectors. The energy and manufacturing sectors are now reasonably well placed in terms of competitiveness to expand further into the global marketplace. Other sectors may have to undergo structural changes in order to improve their competitive positions. Such changes may result in less employment growth in these sectors through the 1990's than previously occurred in the 1980's.

We expect the weak consumer spending pattern to continue in Calgary throughout the first part of 1992, with the processes of employment stabilization, renewed consumer confidence and economic growth becoming more readily apparent in the last half of 1992. With interest rates tied to inflationary levels and mortgage rates within the single digit level, construction in the City will begin to show signs of recovery and renewed growth in the post 1992 period. The medium term outlook is for a period of reasonable economic growth in Calgary.

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